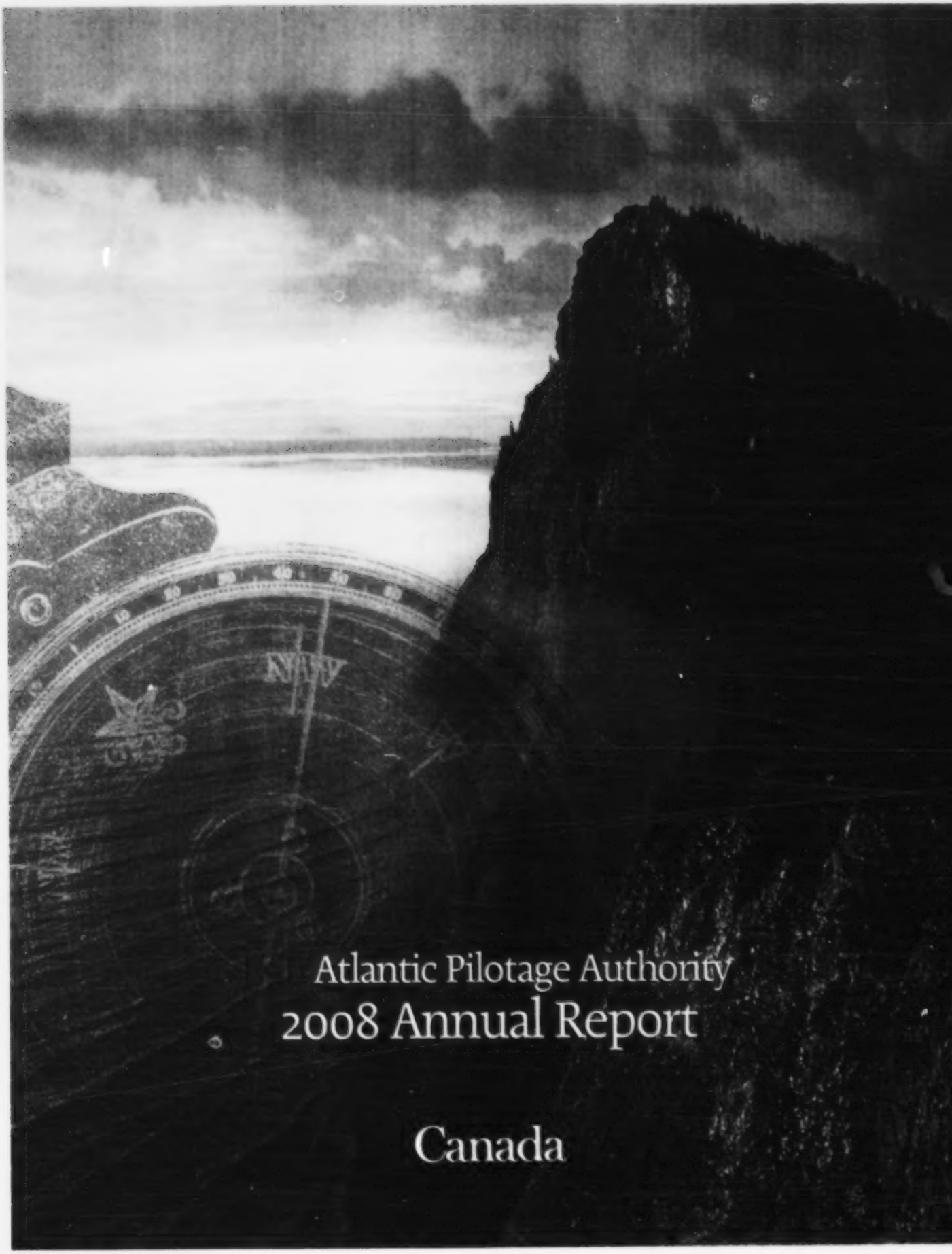

Atlantic Pilotage Authority
2008 Annual Report

Canada

Mandate

The mandate of the Atlantic Pilotage Authority is to establish, operate, maintain and administer, in the interest of safety, an efficient pilotage service in the Atlantic region.

Mission

The Authority will accomplish its mandate by providing the necessary expertise and experience, associated with the appropriate technology, to meet the needs of industry. The Authority is committed to maximizing the use of its resources/assets to meet the goals in a safe and environmentally responsible manner.

Vision

To continue to provide an effective pilotage service throughout the Atlantic region. In doing so, the Authority would maximize opportunities and benefit the various ports/districts and surrounding communities.

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Corporate Headquarters

Atlantic Pilotage Authority
Cogswell Tower, Suite 910,
2000 Barrington Street
Halifax, NS B3J 3K1

tel. 902.426.2550; fax. 902.426.4004
www.atlanticpilotage.com

Marine Pilotage

Marine Pilotage is one of the oldest professions in the world, with reference to pilots found in some of the earliest recorded history. In Europe, a pilot was originally known as a "lodesman", derived from the German word for lodestone, an early compass. The word pilot has evolved from Dutch terminology describing a plumb lead used for measuring the depth of water. Modern pilots, such as those employed by the Atlantic Pilotage Authority, have much more modern and sophisticated equipment available, but are still called upon to provide skilled shiphandling and expert navigation.

The Atlantic Pilotage Authority employs professional pilots who must have a thorough knowledge of the local pilotage area, including port infrastructure and sub-surface characteristics of the port. Their knowledge must include the handling characteristics of each type of vessel calling on their port so that they will be able to accurately judge the effect of wind, current, and tidal influences on the ship they are piloting. In addition to the knowledge required, pilots must remain in good physical condition so they can safely transfer between a ship and a pilot boat in adverse sea states and weather conditions.

An apprentice pilot, upon first joining the Authority, must have extensive experience at sea, and have met prescribed certification requirements as a mariner. However, that is only the beginning of the process of becoming a fully effective pilot. The natural ability of an apprentice pilot is augmented by a comprehensive training and mentoring program. This foundation knowledge is enhanced by ongoing training for all pilots. This level of training contributes to the Atlantic Pilotage Authority's goal of providing a safe and efficient service to vessels plying the waters of the Atlantic region.

Letter from the Chair and CEO

March 9, 2009

The Honourable John Baird, P.C., M.P.
Minister of Transport, Infrastructure
and Communities
29th Floor, Tower "C"
Place de Ville
Ottawa, Ontario K1A 0N5

Dear Sir:

Pursuant to Section 150 of the *Financial Administration Act*, the Atlantic Pilotage Authority is pleased to present its Annual Report for 2008.

The Atlantic Pilotage Authority continues to meet its primary mandate of providing a safe and efficient pilotage service. During the year, the Authority's marine pilots completed 9,541 assignments, with 99.95% being handled without incident.

The goal of self-sufficiency has proven to be more elusive, as the Authority has been adversely affected by global economic conditions. The principal impact on the Authority was caused by the global oil crisis.

This unsurpassed increase in oil prices had a negative impact on both the revenue and expenditure side of the Authority's income statement. With the increased prices available on the world market providing the incentive, much of the oil from the fields offshore in Newfoundland was sent directly to markets outside Canada, or elsewhere in Canada, rather than landing it in Placentia Bay. As a result, the revenue from this key port was $1 million below the anticipated budget. On the expenditure side, the dramatic increase in diesel fuel prices resulted in the cost of fuel and other supplies for the Authority's pilot boats being more than $400 thousand over budget, or an increase cost of 48.5 %. These impacts upon the Authority's financial results were the major contributors to our overall loss.

The impact of the global crisis was felt early in the year, and substantial losses were incurred by the end of the first quarter of 2008. In response, the Board Members of the Authority instructed Management to initiate a fuel expense recovery charge to help mitigate the increased expense. As Chair, I accept full responsibility for this action. This urgent initiative was widely supported by customers following extensive consultation to explain our financial situation. Our responsibility to be economically self sustaining is also a mandate and well understood. Indeed, the Authority's customers even requested that a regulation amendment be implemented in 2009 to provide a mechanism to cope with wide fluctuations in fuel prices in the future. We will follow that advice.

Throughout the year, many representatives within the Authority contributed their time and effort to the design of two new pilot vessels. The Authority intends to replace its aging pilot boats operating in the ports of Halifax, NS, and Saint John, NB with these new designs. This replacement program will commence when the Authority's financial health allows. During 2008, a pilot boat replacement surcharge was implemented within these two ports to assist with the cost.

We are pleased to report that the water approaches to Voisey's Bay, NL, became a compulsory pilotage area in May 2008, with pilotage service conducted through the use of licenced pilots and pilotage certificate holders. The creation of the new compulsory area brings to fruition the recommendation of the Pilotage Risk Management Methodology (PRMM) report completed in 2006. The second PRMM report of that year, related to the St. Croix River/ Port of Bayside, NB, remains in the regulatory process.

Assignments during 2008 were 5.9% less than the previous year; however, revenues improved by 6.5 % over 2007. Expenditures also increased by 6.7% from 2007. As a result, the Authority did not meet its goal of achieving a surplus for the year. The loss incurred in 2008 of 4.2% of revenue represents a marginal increase from the 4.0% loss of 2007.

The Atlantic Pilotage Authority believes strongly in communication and consultation. During 2008, the Authority had 13 scheduled meetings with our customers throughout the Atlantic Region. These meetings were generally very well attended, and financial and operational issues were discussed fully and openly with the participants. In addition, the Authority attends many meetings sponsored by other parties, and frequently meets with customers on a less formal basis.

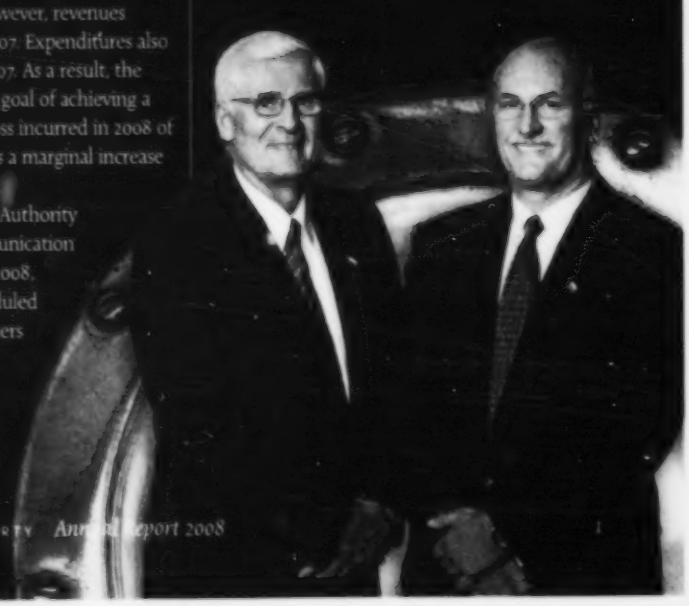
Along with overseeing the strategic direction of the Authority, the Members of the Authority continue to actively participate in establishing effective corporate governance practices and maintaining diligent oversight of financial management and control.

It is, once again, our pleasure to report that the Atlantic Pilotage Authority continues to provide an exemplary service, in the safest and most economical manner, to the satisfaction of its users, and within the obligation of the *Pilotage Act*.

Respectfully submitted,

Anthony McGuinness
Chief Executive Officer

Tom Calkin, BSc.C.E., M.B.A., PEng., CMC
Chair



Mandate

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Directors, Executive and Management

Board of Directors

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Front Row: Alisa Aymar, CGA, Public Sector Representative, Saulnierville, NS; Tom Calkin, B.sc.C.E., M.B.A., PEng., CMC, Chair, Bedford, NS; Jim Stoneman, Shipping Industry Representative, Halifax, NS

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Voisey's Bay, Newfoundland and Labrador

The Atlantic Pilotage Authority created a new compulsory pilotage area during 2008 in the Voisey's Bay, NL area. The port ships ore from the Voisey's Bay mine, one of the largest nickel deposits in the world. The Authority consulted widely with stakeholders in the area in creating this new compulsory area. Participants in the process included the Labrador Inuit Association, Voisey's Bay Nickel Company Limited, the Canadian Marine Pilots Association, and Fednav Limited. The Authority worked with the primary shipper, Fednav Limited, to ensure a smooth and seamless transition to compulsory status.

Year in Review 2008

Strategic Direction

In 2003, the Board identified six strategic areas as priorities for the five year period from 2004 to 2008. The six areas of focus were as follows:

- Governance
- Safety of Environment
- Quality of Service
- Financial Self-Sufficiency
- Technology
- Human Resources

Governance

The Atlantic Pilotage Authority is one of four Authorities established in 1972 pursuant to the *Pilotage Act*. Under section 18 of the Act, the Authority was mandated "to establish, operate, maintain and administer in the interests of safety an efficient pilotage service within the region".

The Authority is composed of a part time Chair, and not more than six Members, referred to herein as the Board. The present Board structure consists of two pilot representatives, two shipping industry representatives, and two public sector representatives. This representation provides an excellent cross section of marine knowledge, shipping perspective, and business acumen. The Board is appointed by the Governor in Council, and is accountable to the Minister of Transport, Infrastructure, and Communities. The Board has a very active committee structure, and new Board Members are provided with an orientation to the Authority, and training in Corporate Governance upon appointment. Through this process, the Board has built an effective structure for overseeing the direction and management of the Authority so that it effectively fulfills its mandate. Policies regarding the stewardship of the Authority and the functioning of the Board are under continual review, and where necessary, changes are implemented.

During 2007, the Board conducted a directional planning initiative to provide a longer planning horizon than contemplated in the five year Corporate Plan process. The Authority reviews and updates this plan each year.

The Board is appointed by the Governor in Council, and is accountable to the Minister of Transport, Infrastructure, and Communities.

Safety of Environment

The Authority continues to monitor and assess all areas within its mandate to determine any change in factors and circumstances that may have an impact on safety. If such a change is determined to warrant closer review, the Authority will employ an outside facilitator to conduct a Pilotage Risk Management Methodology (PRMM). The PRMM, developed jointly by the pilotage authorities and Transport Canada, uses a proven risk management methodology to assess the circumstances in the area. The PRMM has been used in an effective manner by the Authority on several occasions in the past to determine inherent risks in changing conditions. During 2008, there were no circumstances detected that warranted the application of the PRMM process.

The Authority and its pilots are keenly interested in ensuring that safety is not compromised when new facilities are built or a change in traffic patterns is noted in a port. On many occasions, ports and industry request the input of the Authority and pilots during the planning stage of new projects. This advice may involve the positioning of new berths, the feasibility of bringing larger ships to a facility, analysis of required air draft under fixed structures, or the programming of simulators used for marine training. As an example, the Authority and the Saint John pilots were consulted with respect to the design and positioning of the new liquefied natural gas (LNG) terminal in the port. The Placentia Bay area pilots have been involved in a similar manner for the proposed Newfoundland LNG Ltd terminal in Placentia Bay. In addition, Halifax pilots, in cooperation with the Halifax Port Authority and the Halifax/Dartmouth Bridge Commission, have developed an air gap system to ensure the safe navigation of post-Panamax container ships under the harbour bridges.

Quality of Service

The Authority conducts frequent meetings with stakeholders throughout the region to determine their requirements, report our financial results, discuss operational issues, and exchange information. During 2008, the Authority attended 13 consultation meetings in New Brunswick, Nova Scotia, and Newfoundland and Labrador. These included two meetings in each of the ports of Saint John, NB, Halifax, NS, Canso, NS, St. John's, NF

The Halifax pilots assisted with the design of a system to measure the air gap between ships and the harbour bridges, making the safe transit of post-Panamax container ships possible.

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The Halifax pilots assisted with the design of a system to measure the air gap between ships and the harbour bridges, making the safe transit of post-Panamax container ships possible.

and Placentia Bay, NF. Two meetings were held with the Shipping Federation of Canada and one with the Canadian Shipowners Association to discuss the overall APA operation.

In addition to these meetings sponsored by the Authority, management representatives attended dozens of meetings held by other parties or had individual meetings with stakeholders.

The Authority continued to make long-term investments to improve the quality of service it provides. In addition to the two fast pilot boats launched in Placentia Bay in 2007, the Authority is designing two new boats for Halifax and Saint John. The Authority continues to monitor pilot boat operations in all areas to determine whether improvements can be made.

Key Service Indicators

The Authority determines the staffing levels for a port or area based on the expected average daily traffic. For periods where traffic is greater than this average the Authority relies on pilots returning to work overtime during their time off. Occasionally, if traffic levels peak too high above the average expected, delays are virtually inevitable. Staffing for these rare peaks would be too costly for the customers of the port. The Authority has been working with individual ports to deal with peak periods as evidenced in Halifax where the Authority hired a contract pilot during the peak cruise ship season due to concerns about extremely high traffic during a specific period.

The Authority developed a structured methodology for handling complaints several years ago in response to the Ministerial Review of Outstanding Pilotage Issues. The mechanism is designed to be as user friendly as possible, and the goal of the Authority is to ensure that timely feedback is provided to the complainant. The most common reason for a complaint to be submitted was due to a delay in an assignment. In some cases, the delay is caused by factors beyond the control of the Authority, such as weather or delays caused by the non-availability of port services such as tugs.

Percentage of Assignment Delays, by Category 2008
Vessel Delay 67.8%
Pilot Delay 21.7%
Weather 4.2%
Pilot Boat Delay 3.3%
Other Non-APA 3.0%

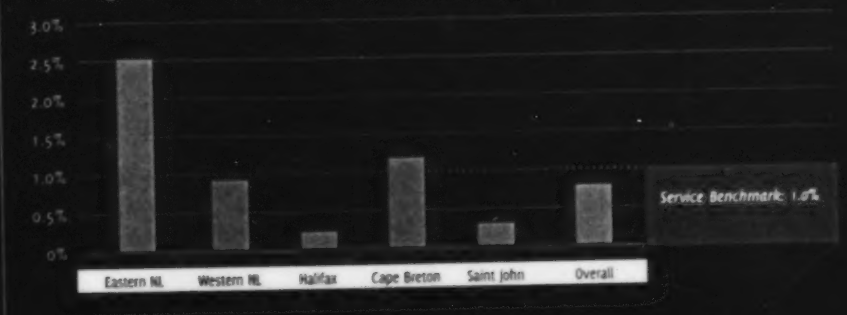
The Authority received 57 complaints out of a total of 9,541 assignments during 2008.

The Authority received 57 complaints out of a total of 9,541 assignments during 2008. This means that 99.4% of assignments were performed without receiving a complaint from the customer. All complaints received are included in the above total, regardless of cause.

During 2008, 96.2% of all assignments commenced within one hour of the first order time. Of those delays that did occur, 67.8% were caused by vessels and 7.2% were caused by weather or other issues outside the control of the APA. In 25.0% of delays, the problem was caused by a shortage of pilots or non-availability of pilot boats. The average length of delays was 2.4 hours. The chart above indicates the category of delay for the 3.8% of assignments that were not commenced on time.

The Authority's service benchmark is to provide service within one hour of the ordered time on 99.0% of assignments overall and by individual district or port. During 2008, the only two areas where the Authority did not meet this benchmark were in Eastern Newfoundland (97.5%) and Cape Breton (98.8%). The Authority continues to work with customers to improve the results in all areas. It should be noted that over one-half of the pilot delays that occurred in Eastern Newfoundland took place within a four week period when the pilot strength was greatly reduced by illness. The chart below indicates the percentage of pilot delays in each pilotage district.

Percentage of Pilotage Delays, by District, 2008



2008 Shipping Incidents

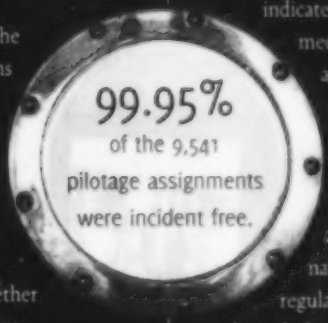
During 2008, there were 5 shipping incidents reported by the Authority's pilots. All incidents were minor in nature, and are described below:

Type of Incident	2008	2007
Contact with wharf	3	5
Contact with port equipment	1	3
Contact with lock	0	2
Contact with ship	1	1
Contact with sea bed	0	1
Contact with buoy	0	0
Year end total	5	11

The Authority endeavours to provide a safe and efficient pilotage service in the Atlantic region. The total number of occurrences indicates 99.95% of the 9,541 pilotage assignments were incident free.

Financial Self-Sufficiency

The *Pilotage Act* requires that pilotage tariffs be fixed at a level that permits the Authority to operate on a self-sustaining financial basis, and that the tariffs set be fair and reasonable. To achieve self-sufficiency, tariff adjustments are made based on the financial and operational issues within each port, rather than overall tariff increases that impact all areas. The goal is to have each area become financially self-sufficient to eliminate cross-subsidization among ports. The Authority relies on projections of future traffic levels and the corresponding revenue and expenses to determine the financial health of the individual ports. All aspects of an area's operation are monitored to determine whether cost cutting measures are more appropriate to achieve a positive result before tariff increases are considered.



The Authority amended tariff charges for 2008 in eleven compulsory pilotage areas: Saint John, NB, Restigouche, NB, Halifax, NS, Strait of Canso, NS, Bras d'Or, NS, Sydney, NS, St. John's, NF, Placentia Bay, NF, Humber Arm, NF, Stephenville, NF and Bay of Exploits, NF. Included in the amendments was the implementation of a new pilot boat surcharge in the areas of Halifax, NS and Saint John, NB. All other tariff charges in the remaining compulsory and non-compulsory pilotage areas remained unchanged.

In recent years there has been significant volatility in activity and revenue in some ports, particularly in Placentia Bay, St. John's, Halifax, and Saint John. The increases in tariff were intended to allow the Authority to remain financially self-sufficient while providing the quality of service requested by the Authority's clients.

Fuel Expense Recovery Charge

The Authority operates pilot boats in the ports of Halifax, NS and Sydney, NS, Saint John, NB, and Placentia Bay, NL. The unprecedented increase in fuel prices experienced during 2008 resulted in fuel costs being as much as 66% over the budgeted price. This resulted in the total fuel costs for the year being more than $380 thousand over the budgeted amount.

During the first half of 2008, during consultation meetings, the Authority's customers expressed support for a fuel expense recovery charge that would allow the Authority to offset the significant increase in costs. The customers recognized the negative impact of fuel prices on the Authority, and indicated their support for a mechanism that reflected actual costs and that would be adjusted to reflect the volatility in prices. Due to the delay inherent in publishing new tariff amendments, and the fixed nature of the current tariff regulation structure, it was agreed that a fuel expense recovery charge could be implemented effective July 1, 2008, to remain in effect until the end of the year.

The minimal fuel requirements for the port of Sydney did not make fuel cost a significant issue, so the Authority did not pursue a recovery charge for that port. However, in the port of Canso, NS, the pilot boat contractor requested a fuel surcharge on each pilot boat trip to offset rising costs. The contractor in this area has greater exposure to fuel increases than other contractors due to the geographical expanse of this compulsory pilotage area. The Authority agreed to use the same mechanism as agreed by its customers for the Canso area, with all proceeds of the charge flowing through to the contractor.

The following table illustrates the revenue raised through the fuel expense recovery charge (in thousands of dollars):

Area	Fuel Recovery Amount	Percentage of Area Revenue
Halifax	$ 71	1.65%
Canso	$ 77	2.88%
Placentia Bay	$ 82	1.92%
Saint John	$ 25	1.05%
Total	$ 255	1.46%

The total amount raised of $255 thousand represents less than 1.5% of the Authority's pilotage revenue for the year. Of this revenue, a total of $178 thousand was used to offset rising fuel prices for Authority owned pilot boats, while $77 thousand raised in Canso was paid to the pilot boat contractor.

When considering its implementation, the Authority considered these charges to be a travel charges incurred by a pilot and thus covered by Section 22 of the Atlantic Pilotage Tariff Regulations, 1996. Upon review, the Office of the Auditor General has concluded that this characterization of the charges is not correct, and that these charges are not prescribed by regulation in accordance with the requirements of the *Pilotage Act*. Therefore, the Auditor General has qualified the Auditor's Report accordingly. The Authority concurs with this finding by the Auditor General.

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and Placentia Bay, NF. Two meetings were held with the Shipping Federation of Canada and one with the Canadian Shipowners Association to discuss the overall APA operation.

In addition to these meetings sponsored by the Authority, management representatives attended dozens of meetings held by other parties or had individual meetings with stakeholders.

The Authority continued to make long-term investments to improve the quality of service it provides. In addition to the two fast pilot boats launched in Placentia Bay in 2007, the Authority is designing two new boats for Halifax and Saint John. The Authority continues to monitor pilot boat operations in all areas to determine whether improvements can be made.

Key Service Indicators

The Authority determines the staffing levels for a port or area based on the expected average daily traffic. For periods where traffic is greater than this average the Authority relies on pilots returning to work overtime during their time off. Occasionally, if traffic levels peak too high above the average expected, delays are virtually inevitable. Staffing for these rare peaks would be too costly for the customers of the port. The Authority has been working with individual ports to deal with peak periods as evidenced in Halifax where the Authority hired a contract pilot during the peak cruise ship season due to concerns about extremely high traffic during a specific period.

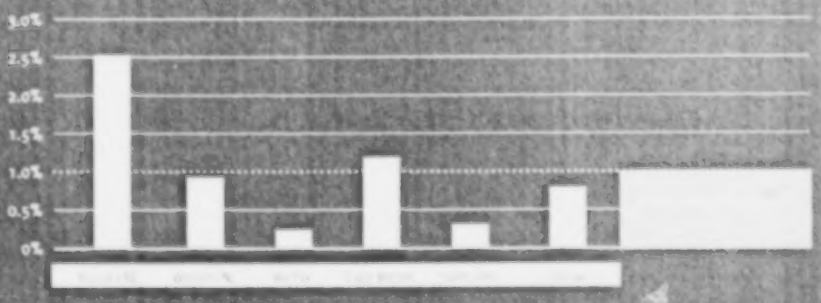
The Authority developed a structured methodology for handling complaints several years ago in response to the Ministerial Review of Outstanding Pilotage Issues. The mechanism is designed to be as user friendly as possible, and the goal of the Authority is to ensure that timely feedback is provided to the complainant. The most common reason for a complaint to be submitted was due to a delay in an assignment. In some cases, the delay is caused by factors beyond the control of the Authority, such as weather or delays caused by the non-availability of port services such as tugs.

The Authority received 57 complaints out of a total of 9,541 assignments during 2008. This means that 99.4% of assignments were performed without receiving a complaint from the customer. All complaints received are included in the above total, regardless of cause.

During 2008, 96.2% of all assignments commenced within one hour of the firm order time. Of those delays that did occur, 67.8% were caused by vessels and 7.2% were caused by weather or other issues outside the control of the APA. In 25.0% of delays, the problem was caused by a shortage of pilots or non-availability of pilot boats. The average length of delays was 2.4 hours. The chart above indicates the category of delay for the 3.2% of assignments that were not commenced on time.

The Authority's service benchmark is to provide service within one hour of the ordered time on 99.0% of assignments overall and by individual district or port. During 2008, the only two areas where the Authority did not meet this benchmark were in Eastern Newfoundland (97.9%) and Cape Breton (98.8%). The Authority continues to work with customers to improve the results in all areas. It should be noted that over one-half of the pilot delays that occurred in Eastern Newfoundland took place within a four week period when the pilot strength was greatly reduced by illness. The chart below indicates the percentage of pilot delays in each pilotage district.

Percentage of Pilotage Delays, by District, 2008



2008 Shipping Incidents

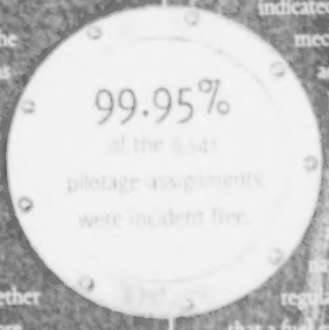
During 2008, there were 5 shipping incidents reported by the Authority's pilots. All incidents were minor in nature, and are described below:

Type of Incident	2008	2007
Contact with wharf	3	5
Contact with port equipment	1	3
Contact with lock	0	2
Contact with ship	1	1
Contact with sea bed	0	1
Contact with buoy	0	0
Year end total	5	11

The Authority endeavours to provide a safe and efficient pilotage service in the Atlantic region. The total number of occurrences indicates 99.95% of the 9,541 pilotage assignments were incident free.

Financial Self-Sufficiency

The *Pilotage Act* requires that pilotage tariffs be fixed at a level that permits the Authority to operate on a self-sustaining financial basis, and that the tariffs set be fair and reasonable. To achieve self-sufficiency, tariff adjustments are made based on the financial and operational issues within each port, rather than overall tariff increases that impact all areas. The goal is to have each area become financially self-sufficient to eliminate cross-subsidization among ports. The Authority relies on projections of future traffic levels and the corresponding revenue and expenses to determine the financial health of the individual ports. All aspects of an area's operation are monitored to determine whether cost cutting measures are more appropriate to achieve a positive result before tariff increases are considered.



The Authority amended tariff charges for 2008 in eleven compulsory pilotage areas: Saint John, NB, Restigouche, NB, Halifax, NS, Strait of Canso, NS, Bras d'Or, NS, Sydney, NS, St. John's, NF, Placentia Bay, NF, Humber Arm, NF, Stephenville, NF and Bay of Exploits, NF. Included in the amendments was the implementation of a new pilot boat surcharge in the areas of Halifax, NS and Saint John, NB. All other tariff charges in the remaining compulsory and non-compulsory pilotage areas remained unchanged.

In recent years there has been significant volatility in activity and revenue in some ports, particularly in Placentia Bay, St. John's, Halifax and Saint John. The increases in tariff were intended to allow the Authority to remain financially self-sufficient while providing the quality of service requested by the Authority's clients.

Fuel Expense Recovery Charge

The Authority operates pilot boats in the ports of Halifax, NS and Sydney, NS, Saint John, NB, and Placentia Bay, NL. The unprecedented increase in fuel prices experienced during 2008 resulted in fuel costs being as much as 66% over the budgeted price. This resulted in the total fuel costs for the year being more than $380 thousand over the budgeted amount.

During the first half of 2008, during consultation meetings, the Authority's customers expressed support for a fuel expense recovery charge that would allow the Authority to offset the significant increase in costs. The customers recognized the negative impact of fuel prices on the Authority, and indicated their support for a mechanism that reflected actual costs and that would be adjusted to reflect the volatility in prices. Due to the delay inherent in publishing new tariff amendments, and the fixed nature of the current tariff regulation structure, it was agreed that a fuel expense recovery charge could be implemented effective July 1, 2008, to remain in effect until the end of the year.

The minimal fuel requirements for the port of Sydney did not make fuel cost a significant issue, so the Authority did not pursue a recovery charge for that port. However, in the port of Canso, NS, the pilot boat contractor requested a fuel surcharge on each pilot boat trip to offset rising costs. The contractor in this area has greater exposure to fuel increases than other contractors due to the geographical expanse of this compulsory pilotage area. The Authority agreed to use the same mechanism as agreed by its customers for the Canso area, with all proceeds of the charge flowing through to the contractor.

The following table illustrates the revenue raised through the fuel expense recovery charge (in thousands of dollars):

Area	Fuel Recovery Amount	Percentage of Area Revenue
Halifax	$ 71	1.65%
Canso	$ 77	2.88%
Placentia Bay	$ 82	1.92%
Saint John	$ 25	1.05%
Total	$ 255	1.46%

The total amount raised of $255 thousand represents less than 1.5% of the Authority's pilotage revenue for the year. Of this revenue, a total of $178 thousand was used to offset rising fuel prices for Authority owned pilot boats, while $77 thousand raised in Canso was paid to the pilot boat contractor.

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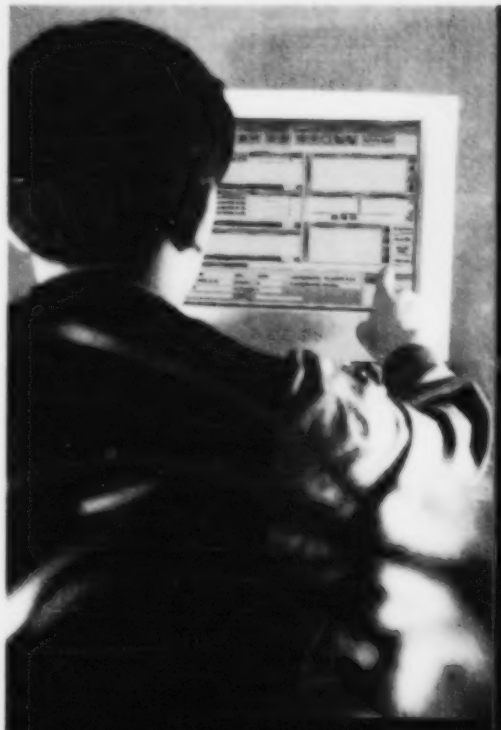

A significant upgrade of the Dispatch and Billing System was completed in 2008. The previous system had been in use since 1998.

The Authority continues to install Automatic Identification Systems (AIS) on all of its new pilot boats to provide more accurate and timely information to pilots and boat crews. In 2008, the dispatch center continued to be upgraded with software to monitor the AIS transmission signals of all vessels in the four major ports serviced by the Authority. This system will be used to monitor port activities and increase efficiencies in the tasks performed by dispatchers. A new dispatch and billing system was completed in 2008 that allowed dispatchers to increase efficiency and will be used to provide improved information to management.

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Staffing

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Four employee pilots retired in 2008. Two of the retirements were from Halifax, NS, and one each from the districts of Eastern Newfoundland and Western Newfoundland. Midway through the year, an employee pilot transferred to Saint John, NB from Restigouche, NB due to a change in traffic patterns in New Brunswick. Four contract pilots were added for the new compulsory pilotage area of Voisey's Bay, NF.

A third pilot boat crew was added in Saint John to service the port through an expected period of growth. The shore engineer the Authority had on staff retired at the end of 2008. The duties of the engineer will be handled on a contract basis going forward.

*Number of employees**	*2008*	*2007*	*2006*
Employee pilots	44	48	45
Pilot boat	14	13	13
Officers and Administrative	10	10	10
Dispatch	6	6	6
Total employees	74	77	74
Contract pilots	13	9	10

** Full time (or equivalent) employees on strength as at December 31 of each year.*

Training

A progressive program of pilot training was maintained during 2008 with the input of pilot representatives from each area. Apprentice and junior pilots learn on the job by being mentored by senior pilots. All pilots attend training courses in manned models or simulators early in their careers, followed after some further experience by a more advanced course. Refresher courses are offered periodically to senior pilots. Other courses, such as Bridge Resource Management, are offered to all pilots as well. In addition, the Authority has worked with industry and the pilots to develop customized courses in such specialized areas as the use of tractor tugs for tanker escort and the characteristics of azipod propulsion systems on cruise ships.

Workplace Safety

The Authority continues to hold frequent Occupational Health and Safety committee meetings and is committed to working in a spirit of consultation with this committee, all employees, and contractors to ensure that a safe and healthy workplace is maintained. The Occupational Health and Safety committee met nine times in 2008.

Special Examination

During 2007, the Office of the Auditor General conducted a special examination of the Authority as required by section 138 of the *Financial Administration Act*. The examiners objective was to provide the Authority with reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively. They concluded that there was reasonable assurance that there were no significant deficiencies in the systems and practices examined. The examiners did point out various opportunities to improve the quality of its systems and practices. During 2008, the Authority has acted upon their recommendations, and has achieved improvements in the areas of risk management, governance, and licensing in non-compulsory areas. In the area of risk management, the Authority engaged an accounting firm to assist in developing a formal comprehensive enterprise risk management framework.

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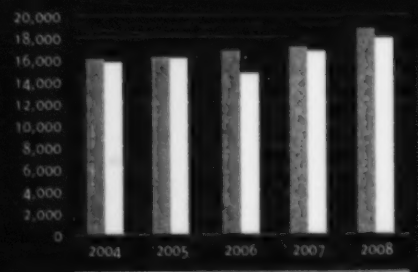
The Authority has contracted with an accounting firm for the internal audit function. During 2008, an internal audit was conducted that reviewed the internal controls of the Authority. Several minor recommendations were made and will be implemented in 2009.

Financial Overview

The Authority had budgeted for a profit of 5.0% of total revenue for 2008. Due to a variety of reasons, this goal was not achieved, and the actual results reflected a net loss of 4.2% of total revenue. While revenue increased by 6.5% from 2007, the result was 3.9% less than budgeted. Expenditures increased by 6.7% from the previous year, and were 5.5% more than budgeted. The following chart indicates the budgeted and actual revenue for each of the last five years.

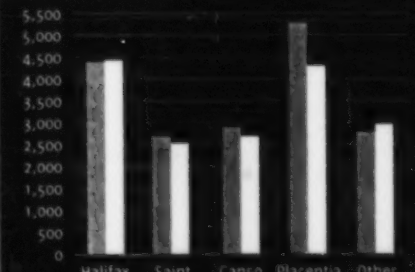
Comparison of Budgeted and Actual Revenue 2004-2008, in $ thousands



	2004	2005	2006	2007	2008
Budget	16,331	16,244	16,871	17,361	18,687
Actual	15,988	16,172	14,796	16,864	17,956

Budgets are established during the development of the Authority's Corporate Plan, and are based on a forecast of vessel activity and revenue for the next year. For 2008, the Authority's pilotage revenue was $1.116 million below the budgeted revenue. The unprecedented increase in oil prices created attractive opportunities for the Newfoundland offshore oil industry to ship directly to world markets rather than land the product at the transshipment facility in Placentia Bay, NF. This caused the pilotage revenues in Placentia Bay to fall $1.002 million below budget. The Strait of Canso, NS was also below budget by $215 thousand as there were fewer dry and bulk cargo vessels and less tug and barge activity than anticipated in the budget. Saint John, NB, was below budget by $176 thousand as the commencement of operations at the new LNG Terminal was delayed and did not begin in 2008 as anticipated. These declines in activity were partially offset by modest gains in several other areas. The chart below illustrates the actual and budgeted revenue in compulsory pilotage areas in 2008.

Comparison of Budgeted and Actual Revenue in Compulsory Areas 2008, in $ thousands



	Halifax	Saint John	Canso	Placentia Bay	Other
Budget	4,371				
Actual	4,389	2,492	2,677	4,280	2,930

The Authority's overall expenditures for 2008 were $970 thousand greater than budgeted. This budget variance was caused by several factors, with the largest variance of $498 thousand being in pilot boat operating costs driven by extremely high fuel costs. Pilot salaries and benefits were over budget by $217 thousand or 2.8%, while the fees paid to contract pilots and non-compulsory fees were over budget by $216 thousand, or 29.3%. These fees are directly related to vessel assignments, and reflect an increase in activity in smaller compulsory ports and non-compulsory areas where pilots are paid a percentage of the revenue earned. All salary categories, including administration salaries, increased over budget due to increased worker's compensation benefits and discount rate adjustments used to value future termination benefits.

The chart below indicates the budgeted expenditures against the actual expenditures for 2008.

The Authority had a capital budget of $800 thousand for 2008. The largest capital investment was budgeted for pilot boat refits and equipment. Included in this amount was a spare engine and transmission for the new pilot boats in Placentia Bay and they were purchased during the year. Unexpected capital costs were incurred during the year due to the restoration of a pilot boat that was damaged by a fire in the engine room. The restoration resulted in a capital expenditure of $505 thousand. When the budget was established, it was expected that the design work for the new boats for Halifax, NS and Saint John, NB would have been completed in 2008. This process is behind schedule with the remaining design costs to be incurred during 2009.

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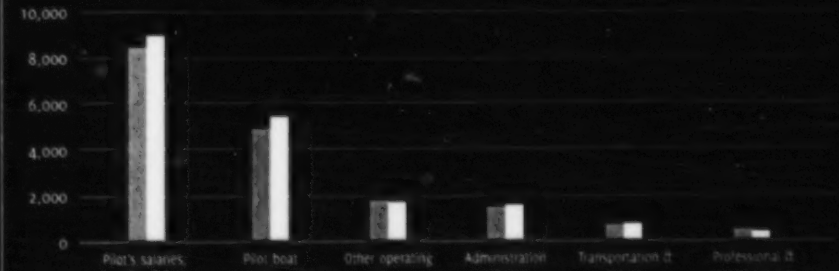

	Pilot's salaries, benefits & fees	Pilot boat operating costs	Other operating costs	Administration salaries	Transportation & travel	Professional & special services
Budget	8,907					
Actual	8,940	5,441	1,679	1,542	749	367

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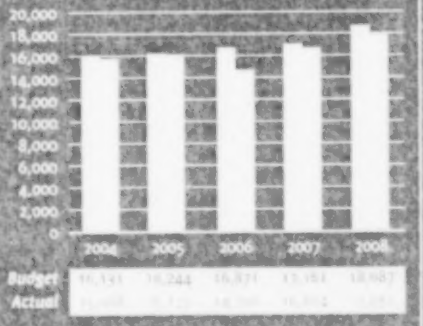

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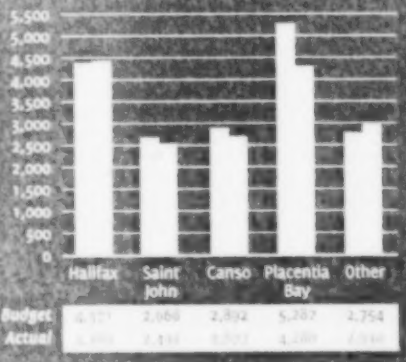

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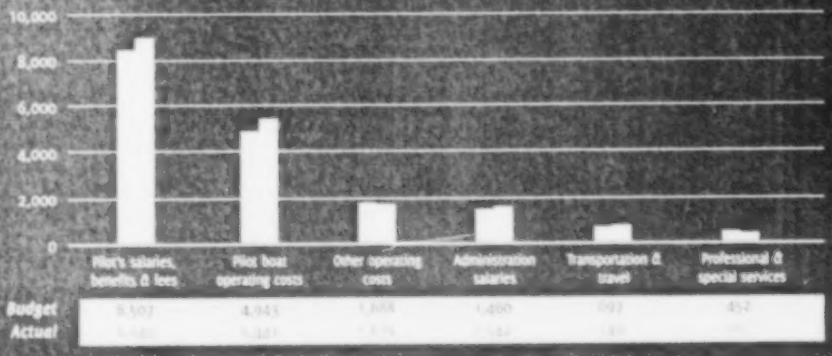
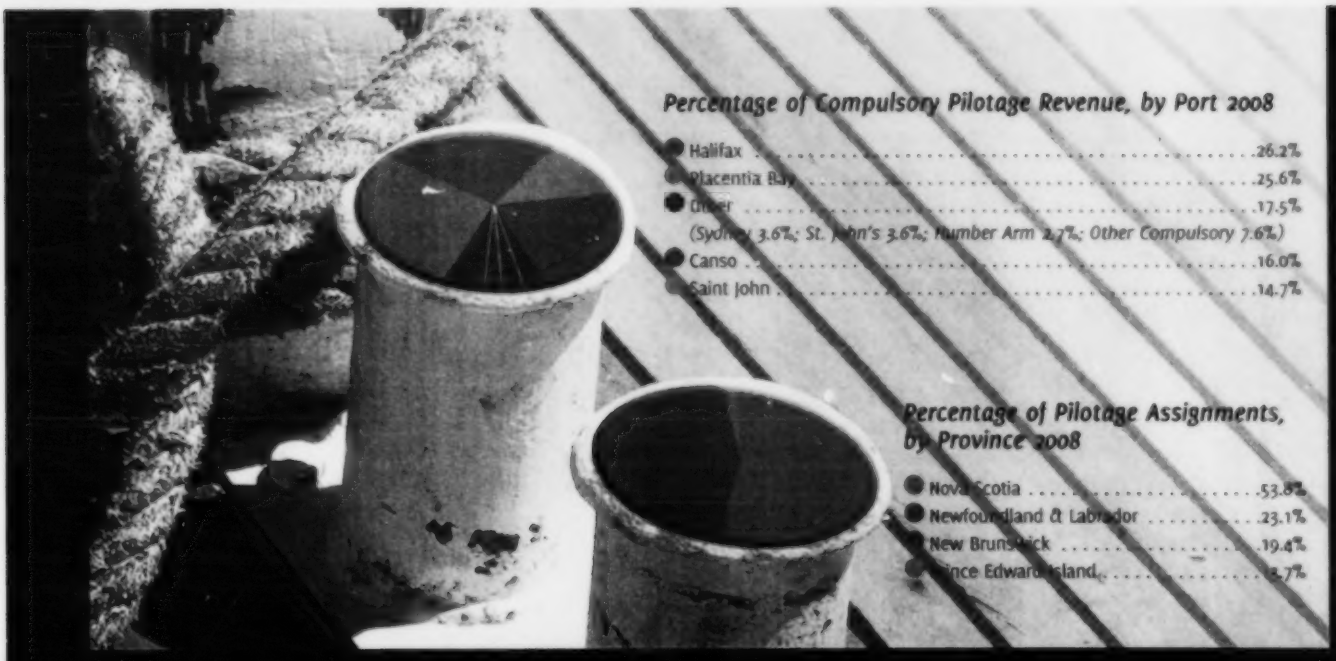



Percentage of Compulsory Pilotage Revenue, by Port 2008
Halifax 26.2%
Placentia Bay 25.6%
Other 17.5%
(Sydney 3.6%; St. John's 3.6%; Humber Arm 2.7%; Other Compulsory 7.6%)
Canso 16.0%
Saint John 14.7%
Percentage of Pilotage Assignments, by Province 2008
Nova Scotia 53.8%
Newfoundland & Labrador 23.1%
New Brunswick 19.4%
Prince Edward Island 3.7%

Budgeted and Actual Capital Expenditures 2008, in $ thousands

	Budget	Actual
Pilot boat refit and equipment	400	669
Pilot boat construction or purchase	315	72
Wharves and structures	–	103
Computer software	50	67
Computer and communications hardware	25	16
Leasehold improvements	10	–
Total	800	927

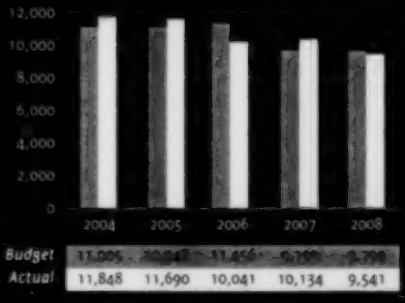
new facility and the necessary infrastructure surrounding it were not known when the budget was established. This capital cost is recorded under wharves and structures.

The capital expenditure budget and actual expenditures for 2008 are indicated in the table above.

The Authority had 9,541 pilotage assignments during the year, which was 258 assignments (2.8%) under budget. The actual number of assignments decreased from 2007 by 6.0%.

Due to increased tariff rates, Halifax rebounded in 2008 to produce the highest revenues of any port, contributing 26.2% of the total compulsory pilotage revenue. The decreased activity and revenue in the other three major ports left Placentia Bay as the second largest revenue producer for the

Budgeted and Actual Pilotage Assignments 2004-2008



Authority with 25.6%. Canso remained the third largest compulsory pilotage revenue contributor at 16.0%, while Saint John decreased to 14.7% of revenue. The four major ports, in total, contributed 82.5% of the compulsory pilotage revenue with the minor ports producing the remaining 17.5%.

In most compulsory areas, the Authority's tariff charges for pilotage services are composed of two components, a basic (or fixed) charge for the port and a unit (or variable) charge that is based on a calculation of the size of the vessel. This calculation uses certain ship dimensions and the resulting product is known as the number of pilotage units in a vessel. The average ship size, expressed in terms of the pilotage units, may vary greatly from port to port. The tariff set for each port is based on the amount of traffic, the average size of ship, the length of the pilotage assignment, and other expenses inherent in the port.

During 2008, the Authority implemented tariff increases within eleven of sixteen compulsory pilotage areas, and established a tariff for the new compulsory area at Voisey's Bay, NL. The increases ranged between 5% and 40% in individual ports, and the overall impact was an 8.12% increase in tariffs for the Authority as a whole. The remaining five compulsory ports did not have tariff increases. The Authority strives to provide an efficient, professional pilotage service at the lowest cost for the customer, while avoiding cross subsidization among ports.

On the Horizon : 2009 and Beyond

International Financial Reporting Standards

The Accounting Standards Board of the Canadian Institute of Chartered Accountants has adopted a strategy to converge Canadian generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRS). Effectively, IFRS will become Canadian GAAP. The Atlantic Pilotage Authority will be required to adopt IFRS for the 2011 financial year. However, there is a conversion timeline that indicates that an IFRS opening balance sheet be prepared for 2010. The Authority has commenced the conversion activity, including the preparation of an implementation plan and IFRS diagnostic to assess the differences between the Authority's accounting policies and IFRS. This conversion activity will continue over the next few years.

Business Growth

Regulations will be amended early in 2009 to amend the compulsory pilotage areas in Saint John, NB and Placentia Bay, NL. The amendment in Saint John will extend the compulsory pilotage area for oil tankers and liquefied natural gas vessels approaching the Canaport facility. In Placentia Bay, vessels that call at the proposed nickel receiving terminal at Long Harbour will be subject to compulsory pilotage. The Authority is awaiting resolution of its proposal to have the St. Croix River/ Port of Bayside in New Brunswick become a compulsory area. This proposal requires further scrutiny because of the international waterways that may be affected. Because of the limited amount of traffic in these areas, it is not expected that they will have a significant financial or operational impact on the Authority.

The long term outlook for the port of Saint John, NB, is positive. The LNG terminal in Saint John is expected to begin operations in mid-2009. There is also a tentative proposal for a new oil refinery in Saint John that may eventually double the current refining capacity in the city. And a new potash mine is being constructed near Sussex that will provide increased export business in the port. The potash mine project is targeted to be completed by 2013- 2014, and the timeline for the oil refinery has not yet been released.

Many ports are working diligently to build the cruise ship industry in Atlantic Canada. Ports such as Halifax and Sydney, NS, Saint John, NB, Charlottetown, PEI, and St. John's, NL, continue their marketing efforts to sell the Atlantic area as a cruise destination.

In the Placentia Bay area of Newfoundland, there is potential for more industry, with the potential of an expansion of the oil refinery at Come-by-Chance, with a proposed LNG transshipment terminal near Arnold's Cove, and with a nickel smelter to be built to process Voisey's Bay ore in nearby Long Harbour. If these projects proceed the future will look very bright in that area.

There is potential for more growth in the Canso, NS region with the construction of a third pier at Statia Terminals, and with preliminary discussions being held about the establishment of a container terminal at Melford. There is also a proposed new container terminal in the port of Sydney which will bode well for the future of that area.

On the negative side, the paper mill in the town of Grand Falls, NL is scheduled to close in 2009, which will affect shipping in the Bay of Exploits.

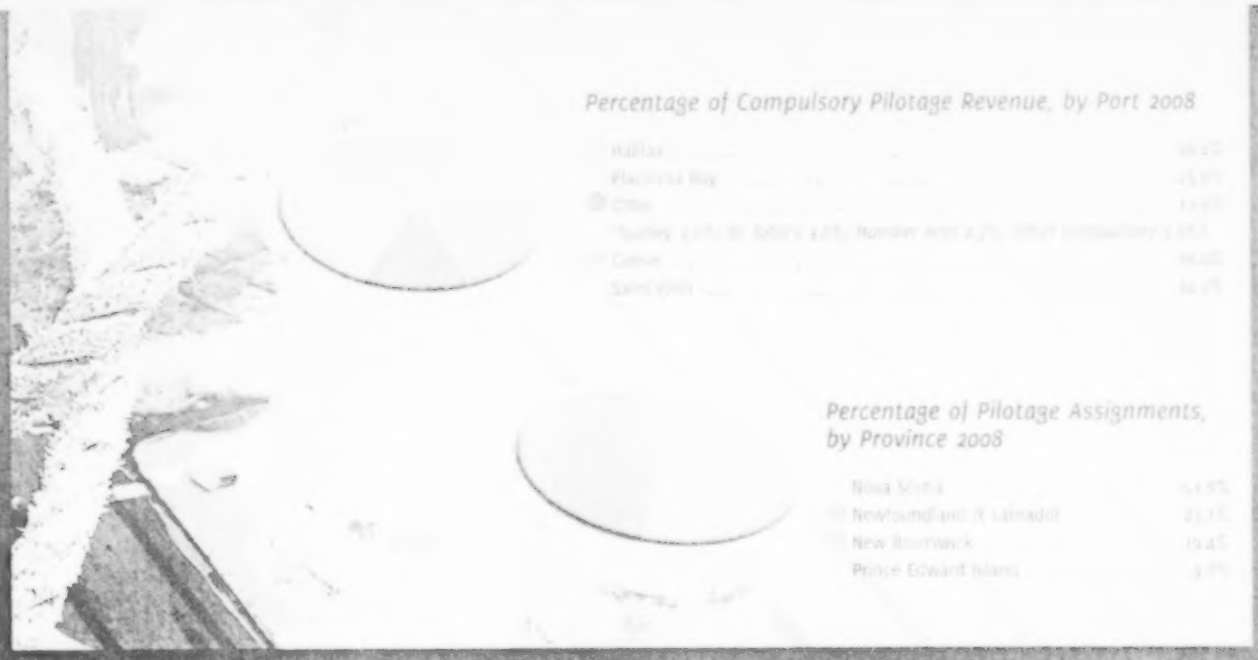
Pilot Boats

The Authority will continue its pilot boat replacement program by planning two new boats, one each for the ports of Halifax and Saint John. These two ports have similar requirements and the Authority will finalize a design for these boats in 2009. The tentative plan is for construction to begin on one of these boats in 2010, with the second boat to follow.

Tariffs

After analyzing projections for coming years, and consulting with industry, the Authority received approval to increase tariffs in thirteen ports effective January 1, 2009. The tariff increases, estimated to be an overall increase of 18.5%, are required to restore the Authority's revenues to a level that will allow it to operate in a self-sustaining manner while minimizing cross subsidization among ports.

Canaport LNG is constructing a state-of-the-art LNG receiving and regassification terminal in Saint John, New Brunswick and will be the first LNG regassification plant in Canada, sending out natural gas to both Canadian and American markets.



Budgeted and Actual Capital Expenditures 2008, in $ thousands

	Budget	Actual
Pilot boat refit and equipment	400	669
Pilot boat construction or purchase	315	72
Wharves and structures	—	103
Computer software	50	67
Computer and communications hardware	25	16
Leasehold improvements	10	—
Total	800	927

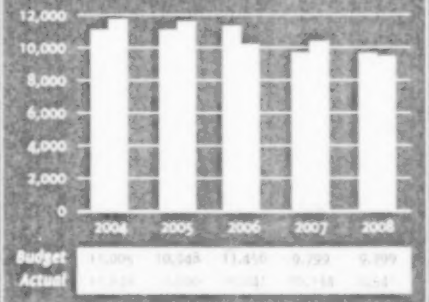
new facility and the necessary infrastructure surrounding it were not known when the budget was established. This capital cost is recorded under wharves and structures.

The capital expenditure budget and actual expenditures for 2008 are indicated in the table above.

The Authority had 9,541 pilotage assignments during the year, which was 258 assignments (2.8%) under budget. The actual number of assignments decreased from 2007 by 6.0%.

Due to increased tariff rates, Halifax rebounded in 2008 to produce the highest revenues of any port, contributing 26.2% of the total compulsory pilotage revenue. The decreased activity and revenue in the other three major ports left Placentia Bay as the second largest revenue producer for the

Budgeted and Actual Pilotage Assignments 2004-2008



Authority with 25.6%. Canso remained the third largest compulsory pilotage revenue contributor at 16.0%, while Saint John decreased to 14.7% of revenue. The four major ports, in total, contributed 82.5% of the compulsory pilotage revenue with the minor ports producing the remaining 17.5%.

In most compulsory areas, the Authority's tariff charges for pilotage services are composed of two components, a basic (or fixed) charge for the port and a unit (or variable) charge that is based on a calculation of the size of the vessel. This calculation uses certain ship dimensions and the resulting product is known as the number of pilotage units in a vessel. The average ship size, expressed in terms of the pilotage units, may vary greatly from port to port. The tariff set for each port is based on the amount of traffic, the average size of ship, the length of the pilotage assignment, and other expenses inherent in the port.

During 2008, the Authority implemented tariff increases within eleven of sixteen compulsory pilotage areas, and established a tariff for the new compulsory area at Voisey's Bay, NL. The increases ranged between 5% and 40% in individual ports, and the overall impact was an 8.12% increase in tariffs for the Authority as a whole. The remaining five compulsory ports did not have tariff increases. The Authority strives to provide an efficient, professional pilotage service at the lowest cost for the customer, while avoiding cross subsidization among ports.

On the Horizon : 2009 and Beyond

International Financial Reporting Standards

The Accounting Standards Board of the Canadian Institute of Chartered Accountants has adopted a strategy to converge Canadian generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRS). Effectively, IFRS will become Canadian GAAP. The Atlantic Pilotage Authority will be required to adopt IFRS for the 2011 financial year. However, there is a conversion timeline that indicates that an IFRS opening balance sheet be prepared for 2010. The Authority has commenced the conversion activity, including the preparation of an implementation plan and IFRS diagnostic to assess the differences between the Authority's accounting policies and IFRS. This conversion activity will continue over the next few years.

Business Growth

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Pilotage Areas & Compulsory Pilotage

Areas of Operation

The *Pilotage Act* has defined the Atlantic Pilotage Authority's area of operation as all the Canadian waters in and around the provinces of New Brunswick, Prince Edward Island, Nova Scotia, and Newfoundland and Labrador. Within this region, the Authority has designated 17 compulsory pilotage areas. These areas are indicated on the map located on this page.

The water approaches to Voisey's Bay, NL, became a compulsory pilotage area in May 2008. St. Croix River/ Bayside, NB remains in the regulatory process and has been included on the map as a proposed compulsory area.

Compulsory Pilotage Areas	
New Brunswick	Saint John, Miramichi, Restigouche
Newfoundland and Labrador	Bay of Exploits, Holyrood, Placentia Bay, Stephenville, Humber Arm, St. John's, Voisey's Bay
Nova Scotia	Bras d'Or Lake, Halifax, Pugwash, Strait of Canso, Sydney
Prince Edward Island	Charlottetown, Confederation Bridge

Vessels subject to Compulsory Pilotage

Ships meeting certain criteria must have a pilot on board in order to sail within the compulsory areas. In general terms, the following ships are subject to compulsory pilotage within the compulsory areas:

- Canadian registered ships of more than 1,500 gross tons;
- Ships not registered in Canada;
- Oil rigs;
- Pleasure craft over 500 gross tons;
- Any combination of tug and tow, if more than one unit is being towed;
- Ferries that are entering or leaving a port that is not one of their regularly scheduled terminals.

There are several exemptions and exceptions within these categories. For example, Canadian government vessels, Canadian registered fishing vessels, and Canadian registered offshore supply vessels of 5,000 gross tons or less with a base of operations within a compulsory port are all exempt. For a full understanding of ships subject to compulsory pilotage, please refer to the Atlantic Pilotage Authority Regulations available on the internet at www.laws.justice.gc.ca or www.atlanticpilotage.com.

Looking from the wheelhouse of an APA pilot boat as pilots board a container ship in Halifax harbour.

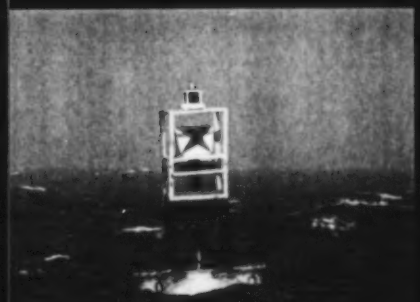
The harbour of St. John's, Newfoundland and Labrador.

Pilotage Assignments

	2008	2007	2006
Compulsory Areas			
New Brunswick			
Saint John	1,580	2,044	1,334
Miramichi	15	8	10
Restigouche	34	97	101
Newfoundland and Labrador			
St. John's	492	419	1,027
Holyrood	27	37	55
Placentia Bay	1,091	1,163	999
Humber Arm	271	267	345
Stephenville	11	28	17
Bay of Exploits	137	120	115
Voisey's Bay	10	–	–
Nova Scotia			
Halifax	3,116	3,217	3,313
Strait of Canso	1,306	1,485	1,453
Sydney	294	277	318
Bras d'Or Lake	59	65	90
Pugwash	145	87	90
Prince Edward Island			
Charlottetown	190	173	220
Confederation Bridge	123	95	130
Non-Compulsory Areas	640	552	424
Total	9,541	10,134	10,041

The Umiak I in ice, at Voisey's Bay, Newfoundland and Labrador.

Placentia Bay's Smart Buoys provide information on wave height, and wind speed and direction.



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Comparative Review

Financial and Statistical Data

	2008	2007	2006
Financial (000's)			
Total Revenue	$ 17,956	$ 16,864	$ 14,794
Operating Expenses			
Salaries, Fees and Benefits	11,546	11,181	10,061
Pilot Boats	5,045	4,285	3,898
Other	2,127	2,074	1,808
Total Operating Expenses	18,718	17,540	15,767
Net Loss before Extraordinary Item	$ 762	$ 676	$ 973
Extraordinary Gain	—	—	238
Net Loss	$ 762	$ 676	$ 735
Revenue – Compulsory Areas			
Nova Scotia	$ 7,973	$ 7,316	$ 7,152
	44%	44%	49%
Newfoundland and Labrador	5,773	5,585	4,598
	33%	33%	31%
New Brunswick	2,604	2,773	2,033
	15%	17%	14%
Prince Edward Island	379	273	353
	2%	2%	3%
Revenue – Non-Compulsory Areas	772	761	491
	4%	4%	3%
Total Pilotage Revenue	$ 17,501	$ 16,708	$ 14,627
Statistical			
Pilotage Units*	3,453,175	3,576,833	3,369,986
Pilotage Assignments	9,541	10,134	10,047
Average number of units per assignment	362	353	336
Incidents**	5	11	6
% of incident free assignments	99.95%	99.89%	99.94%
Number of employees***			
Employee pilots	44	48	45
Pilot boat	14	13	13
Officers and Administrative	10	10	10
Dispatch	6	6	6
Total employees	74	77	74
Contract pilots	15	9	10

**Pilotage unit means a measurement of the size of the ship, and includes these dimensions: the length, breadth and moulded depth of a ship.*

*** Compilation of all maritime incident reports with or without damage filed by licensed pilots.*

**** Full time (or equivalent) employees on strength as at December 31 of each year.*

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Management's Responsibility for Financial Reporting

The accompanying financial statements have been prepared by the Authority's management in accordance with Canadian generally accepted accounting principles on a basis consistent with the preceding year using management's best estimates and judgements, where appropriate. Management is responsible for the integrity and objectivity of the information in the financial statements and annual report.

Management is also responsible for developing and maintaining a system of internal control which is designed to provide reasonable assurance that assets are safeguarded and controlled, transactions comply with relevant authorities and accounting systems provide timely, accurate financial information.

The Authority's management is responsible for conducting its affairs in compliance with the *Pilotage Act* and regulations, Part X of the *Financial Administration Act* and regulations, and the bylaws of the Authority.

The Members of the Authority are responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. These responsibilities are delegated to the Audit Committee. The Audit Committee meets with management and the auditors to satisfy itself that responsibilities are properly discharged and to review the financial statements. The financial statements and annual report are reviewed and approved by the Members of the Authority on the recommendation of the Audit Committee.

The Auditor General of Canada conducts an independent audit of the transactions and financial statements of the Authority in accordance with Canadian generally accepted auditing standards, and expresses her opinion on the financial statements. She has full and free access to the Audit Committee of the Authority, and her report follows.

R.A. McGuinness
Chief Executive Officer

P. MacArthur, CMA
Chief Financial Officer

Halifax, Canada
March 9, 2009

Auditor General of Canada
Vérificatrice générale du Canada

Auditor's Report

To the Minister of Transport, Infrastructure and Communities

I have audited the balance sheet of Atlantic Pilotage Authority as at December 31, 2008 and the statements of income, comprehensive income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

From July 1, 2008 to December 31, 2008, in response to rising fuel prices, the Authority charged users $255,000 in fuel expense recovery charges that were not in regulations approved by the Governor in Council. Subsection 33(1) of the *Pilotage Act* requires that all pilotage charges be set out in regulations and approved by the Governor in Council. These charges are not prescribed by regulation in accordance with the requirements of the *Pilotage Act*.

Further, in my opinion, except for the fuel expense recovery charges described in the preceding paragraph, the transactions of the Authority that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Pilotage Act* and regulations, and the by-laws of the Authority.

John O'Brien, CA
Principal
for the Auditor General of Canada

Halifax, Canada
March 9, 2009

Balance Sheet

As at December 31, 2008

in thousands	2008	2007
Assets		
Current		
Cash	$ —	$ 248
Accounts receivable, net (Note 6)	2,519	2,034
Prepaid expenses	78	81
Other assets	—	55
	2,597	2,418
Long-term		
Investments classified as held for trading (Note 6)	—	82
Segregated investments classified as held for trading (Note 6)	—	721
Property and equipment, net (Note 7)	8,350	8,016
	8,350	8,819
	$ 10,947	$ 11,237
Liabilities		
Current		
Bank indebtedness	$ 71	$ —
Accounts payable and accrued liabilities (Note 6)	1,808	1,727
Current portion of bank loans (Note 8)	216	176
Employee severance benefits (Note 9)	78	211
	2,173	2,114
Long-term		
Bank loans (Note 8)	4,056	3,791
Employee severance benefits (Note 9)	1,186	1,038
	5,242	4,829
	7,415	6,943
Equity of Canada		
Contributed capital	2,305	2,305
Retained earnings	1,227	1,989
	3,532	4,294
	$ 10,947	$ 11,237

Commitments (Note 15); Contingencies (Note 16)

The accompanying notes are an integral part of these financial statements.

Approved by the Members of the Authority:

Member

Member

Statement of Income, Comprehensive Income and Retained Earnings

For the year ended December 31, 2008

in thousands	2008	2007
Revenues		
Pilotage charges (Note 11)	$ 17,501	$ 16,708
Investment and other income (Note 12)	455	156
	17,956	16,864
Expenses		
Pilots' fees, salaries and benefits	8,940	8,709
Pilot boat, operating costs	5,441	4,893
Staff salaries and benefits	1,542	1,465
Transportation and travel	749	712
Amortization	593	390
Professional and special services	367	354
Utilities, materials and supplies	268	294
Rentals	250	222
Training	235	286
Interest expense	218	81
Communications	115	134
	18,718	17,540
Net loss and comprehensive loss	(762)	(676)
Retained earnings, beginning of the year as previously reported	1,989	2,672
Effect of change in accounting policy	—	(7)
Retained earnings, beginning of the year as restated	1,989	2,665
Retained earnings, end of the year	$ 1,227	$ 1,989

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

For the year ended December 31, 2008

in thousands	2008	2007
Operating Activities		
Cash receipts from customers	$ 17,383	$ 16,536
Cash paid to employees and suppliers	(17,765)	(17,851)
Other income received	216	192
Employee severance payments	(241)	—
Cash flows used in operating activities	(407)	(1,123)
Investing Activities		
Proceeds from sale of investments	692	264
Proceeds from sale of other assets	18	—
Purchases of property and equipment	(927)	(4,748)
Cash flows used in investing activities	(217)	(4,484)
Financing Activities		
Proceeds from bank loan	500	4,000
Repayment of bank loan	(195)	(33)
Cash flows provided by financing activities	305	3,967
Decrease in cash	(319)	(1,640)
Cash, beginning of the year	248	1,888
(Bank indebtedness) cash, end of the year	$ (71)	$ 248
Supplementary Disclosure		
Interest paid	$ 218	$ 81

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

December 31, 2008

in thousands

1. Objectives and Activities

The Atlantic Pilotage Authority (the Authority) was established in 1972 pursuant to the *Pilotage Act*. The objects of the Authority are to establish, operate, maintain, and administer a safe and efficient pilotage service within designated Canadian waters. The Act provides that pilotage tariffs shall be fair, reasonable, and sufficient, to permit the Authority to operate on a self-sustaining financial basis. Under the *Pilotage Act*, no payment to the Authority may be made under an appropriation by Parliament to discharge an obligation or liability.

The Authority is a Crown corporation listed in Schedule III, Part I of the *Financial Administration Act* and is not subject to the provisions of the *Income Tax Act*.

2. Regulation of Pilotage Charges

The approval process for setting tariffs for pilotage charges is set out in the *Pilotage Act*. The Authority, with the approval of the Governor in Council, makes regulations prescribing tariffs. The Authority must publish proposed tariffs in the *Canada Gazette* and any interested party who has reason to believe that a proposed tariff is prejudicial to the public interest may file a notice of objection, setting out the grounds therefor, with the Canadian Transportation Agency (CTA) within thirty days following publication of the proposed tariff.

The CTA must investigate the proposed pilotage charge set out in the notice of objection. Once its investigation is complete, the CTA must make a recommendation within 120 days following the receipt of the notice of objection, and the Authority must govern itself accordingly.

The tariffs may come into force 30 days after publication in the *Canada Gazette*. However, where the CTA recommends a pilotage charge that is lower than that prescribed by the Authority, the Authority is required to reimburse the difference between this charge and the charge recommended by the CTA, with interest, to any person who has paid the prescribed charge. The Governor in Council may vary or rescind a recommendation of the CTA.

3. Significant Accounting Policies

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The significant accounting policies are as follows:

(a) Financial instruments

Cash equivalents represent short-term, highly liquid investments. Cash equivalents are designated as held for trading and are recorded at fair value.

The objective of the Authority's long-term investment policy is to maximize the investment rate of return in a government guaranteed bond portfolio. The Authority has designated all investments as held for trading. Consequently, investments are recorded at fair value. The fair value is based on the quoted market price of the investments at year end. Purchases and sales of investments are recognized using settlement-date accounting.

Realized gains and losses from the sale of investments are recognized in investment and other income in the period earned. Unrealized gains and losses from fluctuations in fair value are recognized in investment and other income in the period in which they occur. Investment income from interest is recognized in the period earned. Investment income is presented net of investment expenses.

Accounts receivable, classified as loans and receivables, and accounts payable and accrued liabilities, classified as other financial liabilities, are initially measured at fair value, which due to their short-term nature, approximates their amortized cost.

Bank loans are classified as other financial liabilities and are initially measured at fair value. After initial recognition, bank loans are measured at amortized cost using the effective interest method.

The Authority is not party to any derivative financial instruments or hedges.

(b) Property and equipment

Property and equipment are recorded at cost. The cost of pilot boats under construction includes design, material and direct labour. Amounts included in pilot boats under construction are transferred to the pilot boat classification upon completion, and are then amortized. Amortization of property and equipment is calculated on a straight-line basis and is based on the estimated useful life of the assets as follows:

Pilot boats	10 to 25 years
Furniture and equipment	5 to 10 years
Leasehold improvements	10 years

(c) Employee severance benefits

Employees are entitled to specified benefits on termination as provided for under collective agreements and conditions of employment. The Authority recognizes the cost of the future severance benefits over the period in which the employees render services to the Authority and the liability for these benefits is recorded in the accounts as the benefits accrue to employees. Management determined the accrued obligation for severance benefits using a method based upon assumptions and its best estimates. Changes to these estimates are charged or credited to the Statement of Income, Comprehensive Income and Retained Earnings in the period they are reassessed. These are the only obligations of the Authority for severance benefits that entail settlement of future payment.

(d) Pension plan

All eligible employees are covered by the Public Service Pension Plan administered by the Government of Canada. Contributions to the Plan are required from both the employee and the Authority. The Authority's contribution to the Plan reflects the full cost of the employer contributions. This amount is based on a multiple of the employee's required contributions and may change from time to time depending on the experience of the Plan. These contributions represent the total pension obligations of the Authority. Contributions are expensed in the period in which services are rendered. The Authority is not required to make contributions with respect to actuarial deficiencies of the Public Service Pension Plan.

(e) Contributed capital

Contributed capital consists of the estimated historical cost of capital assets obtained from Canada when the Authority was established and the capital assets financed from parliamentary appropriations.

(f) Revenue recognition

Revenues from pilotage charges are recognized when pilotage services are provided.

(g) Measurement uncertainty

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. The estimated useful lives of equipment and the accrued obligation for employee severance benefits are the most significant estimates subject to measurement uncertainty. Actual results could differ significantly from those estimates.

(h) Capital

The Authority's capital is its equity, which comprises of contributed capital and retained earnings. Equity is represented by net assets. The Authority's objectives when managing capital are:

- to safeguard the Authority's ability to continue as a going concern by having enough capital in reserve to offset possible operating losses, so that it can continue to provide a safe and efficient pilotage service;
- to build an allowance for the cost of constructing or purchasing new pilot boats; and
- to build an allowance for an unfunded liability pertaining mainly to employee severance benefits.

The Authority conducts its business in a manner intended to maintain capital to meet these three requirements. Adjustments to the capital structure are made based on changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Authority may change its targeted return on pilotage services and tariff structure for a given period, delay possible construction projects, or sell assets to reduce debt.

4. Changes in Accounting Standards

(a) Financial instruments – disclosure and presentation

Effective January 1, 2008, the Authority adopted the new CICA Handbook Section 3862, *Financial Instruments – Disclosure* and Section 3863, *Financial Instruments – Presentation*. These standards require the disclosure of information with regards to the significance of financial instruments for the Authority's financial position and operations, the nature and extent of risks arising from financial instruments to which the Authority is exposed during the period and at the balance sheet date, and how the Authority manages those risks. These standards replace CICA Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*. These new requirements relate to disclosure only and do not impact the financial results of the Authority.

(b) Capital disclosures

Effective January 1, 2008, the Authority adopted the new CICA Handbook Section 1535, *Capital Disclosure*. The standard requires the Authority to disclose information about the Authority's objectives, policies and processes for managing its capital, quantitative data about what the Authority regards as capital and whether the Authority has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. This new requirement relates to disclosure only and does not impact the financial results of the Authority.

(c) Future accounting changes

The Accounting Standards Board of the Canadian Institute of Chartered Accountants has announced that all publicly accountable Canadian reporting entities will adopt International Financial Reporting Standards (IFRS) as Canadian generally accepted accounting principles for years beginning on or after January 1, 2011. The Authority is currently evaluating the impact of the adoption of these new standards.

5. *Financial Risk Management*

Overview

The Authority has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- interest rate risk

This note presents information about the exposure to each of the above risks, including the Authority's objectives, policies, and processes for measuring and managing risk. Further quantitative disclosures are included throughout these financial statements.

The Members of the Authority have overall responsibility for the establishment and oversight of the risk management framework. The Members are responsible for developing and monitoring the Authority's risk management policies.

The Authority's risk management policies are established to identify and analyze the risks faced by the Authority, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Authority's activities. The Authority, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee oversees how management monitors compliance with the risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Authority. The Audit Committee is assisted in this role by internal audits contracted to external parties. These external parties are contracted to conduct regular reviews of management controls and procedures, the results of which are reported to the Audit Committee.

Credit risk

Credit risk is the risk of financial loss to the Authority if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Authority's receivables from customers and investments.

The carrying amount of cash, accounts receivable and investments represents the maximum exposure to credit risk.

There is no significant credit risk with accounts receivable as the *Pilotage Act* stipulates that the owner, master, and agent of a ship are jointly and severally liable for pilotage charges, and the Act provides a mechanism to withhold customs clearance if pilotage charges are unpaid.

The Authority's accounts receivable had a carrying value of $2,519 as at December 31, 2008 (2007 – $2,034). There is no concentration of accounts receivable with any one customer. As at December 31, 2008, approximately 4% (2007 – 5%) of accounts receivable, net were over 90 days past due, whereas 96% (2007 – 95%) were current, or less than 45 days past due. Historically, the Authority has not incurred any significant losses with respect to bad debts. The Authority's allowance for doubtful accounts was $167 at December 31, 2008 (2007 – $154).

Cash is held with a Canadian chartered bank. The *Pilotage Act* also mitigates the Authority's exposure to credit risk with respect to investments by specifying that the Authority may only invest, with ministerial approval, in bonds or other obligations that are guaranteed by Her Majesty in right of Canada, any province, or any municipality in Canada.

Liquidity risk

Liquidity risk is the risk that the Authority will not be able to meet its financial obligations as they fall due. The Authority's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without unacceptable losses or risking damage to the Authority's reputation.

The Authority strives to maintain sufficient resources to meet expected operational expenses for a period of 90 days. This includes the servicing of financial obligations, but excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. As part of this plan, the Authority maintains a line of credit of $1,000 that is unsecured and available at an interest rate not to exceed the prime lending rate.

The carrying amount of accounts payable and accrued liabilities and bank indebtedness, and bank loans represents the maximum exposure to liquidity risk.

The Authority's accounts payable had a carrying value of $1,125 as at December 31, 2008 (2007 – $1,206) and are all due within 60 days. The Authority's accrued liabilities had a carrying value of $683 as at December 31, 2008 (2007 – $521).

The Authority has demand loans with a Canadian chartered bank. At December 31, 2008, these bank loans totalled $4,272 (2007 – $3,967).

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Authority has no significant exposure to interest rate risk.

6. Financial Instruments

During the year, the Authority disposed of all its investments and has no investments at December 31, 2008.

	2008 Fair Value	2007 Fair Value	Yield (%)
Maturing within 3 years:			
Government of Canada bonds	**$ —**	$ 286	3.9
Provincial bonds	**—**	517	3.44–4.23
Total investments and segregated investments	**$ —**	$ 803	

	2008	2007
Gains and losses		
Realized gains in the year	**141**	77
Change in fair value in the year	**(111)**	(36)
Investment income	**$ 30**	$ 41

Segregated investments represent one fund established for pilot boat replacement and the funding of employee severance benefits. The level in the fund is based upon the cash provided by operating activities in the previous year. An amount of $721 was withdrawn from segregated investments during 2008 (2007 – $166) leaving $0 in the fund at December 31, 2008 (2007 - $721).

Accounts receivable and accounts payable are incurred in the normal course of business and are respectively due and payable on demand. The carrying value of these financial instruments approximate fair value because of their short term to maturity.

7. Property and Equipment

	Cost	**2008 Accumulated Amortization**	**Net**
Land	**$ 1**	**$ —**	**$ 1**
Pilot boats	**11,099**	**3,310**	**7,789**
Pilot boats under construction	**72**	**—**	**72**
Furniture and equipment	**1,322**	**855**	**467**
Leasehold improvements	**204**	**183**	**21**
	$ 12,698	**$ 4,348**	**$ 8,350**

	Cost	2007 Accumulated Amortization	Net
Land	$ 1	$ —	$ 1
Pilot boats	10,430	2,859	7,571
Pilot boats under construction	—	—	—
Furniture and equipment	1,136	733	403
Leasehold improvements	204	163	41
	$ 11,771	$ 3,755	$ 8,016

8. Bank Loans

The Authority has approval from the Minister of Finance to borrow $4,500 to finance the construction of two pilot boats. The loans are amortized over 15 years, with interest rates fixed for a five year term. Upon completion of each five year term, the interest rate will be negotiated for the next term. The Authority has received written confirmation from the bank that it will not enforce its right to demand payment prior to December 31, 2009, providing the Authority continues to meet the repayment terms of the loans. Balances outstanding at December 31 are:

	2008	2007
Demand instalment loan, payable in monthly instalments including interest at 5.06%, amortized over 15 years, term ending on September 1, 2012, unsecured	**$ 2,829**	$ 2,967
Demand instalment loan, payable in monthly instalments including interest at 5.03%, amortized over 15 years, term ending on February 1, 2013, unsecured	**1,443**	1,000
	$ 4,272	$ 3,967
Current portion	**$ 216**	$ 176
Long-term portion	**$ 4,056**	$ 3,791
	$ 4,272	$ 3,967

As at December 31, 2008, the fair value of the bank loans is estimated at $4,371 (2007 – $3,974). The estimate is based on the expected future principal repayments discounted at current interest rates for similar loans.

The remaining minimum principal payments required are:

2009	$ 216
2010	227
2011	239
2012	251
2013 and beyond	3,339
	$ 4,272

9. Employee Severance Benefits

The Authority provides severance benefits to its employees based on years of service and final salary. This benefit plan is unfunded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation. Information about the plan, measured at December 31, is as follows:

	2008	2007
Assumptions:		
Discount rate	3%	4%
Inflation rate	2%	2%
Minimum expected service	10 years	10 years
Age at retirement	60 years	60 years
Accrued benefit obligation, beginning of the year	$ 1,249	$ 1,060
Cost for the year	256	189
Benefits paid during the year	(241)	—
Accrued benefit obligation, end of the year	$ 1,264	$ 1,249
Current portion	$ 78	$ 211
Long-term portion	1,186	1,038
	$ 1,264	$ 1,249

10. Operating Credit Facility

The Authority has an operating credit facility of up to $1,000 available at an interest rate not to exceed the prime lending rate. No amount had been drawn down on the credit facility at December 31, 2008 (2007 – nil). The credit facility is available to the Authority as required and has no renewal date or fixed term.

11. Pilotage Charges

During 2008, the Authority implemented a pilot boat replacement surcharge for the ports of Halifax, Nova Scotia and Saint John, New Brunswick. The surcharge will be used to defray the initial design and construction costs of new pilot boats to be built for each port. This surcharge came into force on July 28, 2008, and will be in effect for a three year period.

	2008	2007
Pilotage charges	$ 17,333	$ 16,708
Pilot boat replacement surcharge		
Halifax ($67 per assignment)	93	—
Saint John ($100 per assignment)	75	—
	$ 17,501	$ 16,708

12. Insurance Proceeds

The Authority recognized insurance proceeds of $350 as part of investment and other income in the Statement of Income, Comprehensive Income and Retained Earnings. This gain represents an interim insurance settlement related to a fire that occurred on a pilot boat on June 3, 2008.

13. Pension Plan

The Authority and all eligible employees contribute to the Public Service Pension Plan. This pension plan provides benefits based on years of service and average earnings at retirement. The benefits are fully indexed to the increase in the Consumer Price Index. Contributions to the Public Service Pension Plan consisted of:

	2008	2007
Contributions by the Authority	$ 945	$ 988
Contributions by employees	$ 470	$ 511

14. Related Party Transactions

The Authority is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Authority enters into transactions with these entities in the normal course of business, under the same terms and conditions that apply to unrelated parties. These transactions are not of significance, and do not have a material effect on these financial statements.

15. Commitments

The Authority has entered into contracts for pilot boat services, office rentals, and wharfage rentals requiring the following minimum payments::

2009	$ 1,674
2010	187
2011	150
2012	153
2013 and beyond	596
	$ 2,760

16. Contingencies

The Authority is subject to claims or possible claims by third parties. The outcome of these claims or possible claims is not determinable at this time. Management is of the opinion that the resolution of these matters will not have a material adverse impact on the Authority.